

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58288

FEDERAL WAY SCHOOL DISTRICT No. 210

King County, Washington

September 1, 1995 Through August 31, 1996

Issue Date: June 13, 1997

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FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Federal Way School District No. 210 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. District Should Improve Internal Controls Over Cash Receipting Activities

During our review of one third of the district's schools, we noted the following cash handling and Associated Student Body (ASB) activity internal control weaknesses:

a. Receipting:

(1) At most of the schools we visited, ASB bookkeepers were accepting remittances without adequate supporting documentation.

(2) At most schools, the fiscal clerks controlled cash receipts from receiving to depositing, with no monitoring for completeness and accuracy.

(3) At most schools, checks were restrictively endorsed when processed for deposit rather than upon receipt.

(4) At the secondary schools, the official prenumbered receipt forms did not provide space to indicate mode of payment (cash or check). Without an indication of mode of payment, management cannot be sure that all money received was deposited to the bank intact.

(5) We noted an instance at one elementary school where the third file copy of the prenumbered receipt was cut from the book and used as refund documentation. The school is now retaining and filing the third copy.

(6) No summary of receipts was prepared by the Training and Development Office when making deposits with the district cashier. We requested a summary for the January 13, 1997, deposit and found the deposit short \$20. The \$20 was included in the next day's deposit.

(7) While central administration followed cash receipting procedures, those procedures were not in writing.

b. Depositing:

(1) In several instances, revenues were not deposited on a timely basis. Cash and checks, exceeding \$100, were held up to a week before deposit.

(2) Receipt transmittals remitted by the schools to central accounting office did not reflect the cash/check composition of the deposit. Central accounting agreed the total deposit per the transmittal to the validated deposit ticket but did not verify the cash and check composition.

(3) Funds collected by the Training and Development Office were not deposited with the district cashier on a timely basis. Funds received before Christmas vacation (December 20th) were not deposited until January 13, 1997.

c. Fund Raisers:

(1) At many schools we visited, we found instances of fund raising with no evidence of preapproval, inadequate support for revenues received, unspecified durations of event sales, and no reconciliations of quantities sold to recorded revenues.

(2) We noted ASB advisors were not retaining support for ASB fund raisers.

d. Vending Machine:

(1) At one school, the vending machine located in the faculty room was controlled and operated by the school handicapped students. Receipts were not deposited intact. Coins, not sufficient to be rolled, were left in the vending machine.

(2) At the same school, the number of soft drinks sold, multiplied by the selling price per can, did not agree with the amount deposited. The sales report lacked advisor review of the correctness of the amount received and the number of drinks sold. There was no accountability for the soft drinks purchased.

e. Imprest/Revolving Funds:

(1) Reconciliation of the district's Travel Advance Fund on January 10, 1997, indicated seven advance travel checks issued from October 23, 1996, through December 11, 1996, had not been settled. RCW 42.24.150 requires settlement of advances be made by filing an expense voucher with the custodian of the fund on or before the 15th day following the close of the travel period. Any default in accounting for or repaying an advance renders the full amount unpaid due immediately and payable with interest at the rate of 10 percent per annum.

(2) At most schools, imprest and revolving funds were maintained by a fiscal clerk with total responsibility for the funds, from preparing checks to reconciling the bank accounts.

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him with the treasurer of the taxing district once every twenty four consecutive hours.

RCW 43.09.200 states in part:

The systems shall exhibit true accounts and detailed statement of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

The accounts shall show the receipts, use and disposition of all public property . . . all receipts, vouchers and other documentation kept, or

required to be kept, necessary to isolate and prove the validity of every transaction

RCW 28A.325.030 states in part:

There is hereby created a fund on deposit with each county treasurer for each school of the county having an associated student body as defined in RCW 28A.325.020. Such fund shall be known as the associated student body program fund. Rules and regulations promulgated by the superintendent of public instruction under RCW 28A.325.020 shall require separate accounting for each associated student body's transactions in the school district's associated student body program fund.

WAC 392-138-305 states in part:

. . . All associated student body moneys, upon receipt, shall be transmitted to the district depository bank and then to the county treasurer

These weaknesses allow the possibility for errors and irregularities to occur and not be detected in a timely manner. Further, the students, for whom the ASB fund exists, may not receive the full benefit of their fund-raising efforts.

These conditions existed due to the lack of emphasis placed on ASB activities at the school level as well as activities in the central administration. We also noted lack of monitoring of ASB activities from central administration.

We recommend district officials implement adequate policies and procedures to improve cash receipting and disbursing procedures, and provide timely monitoring of ASB activities.

Auditee's Response

We concur that material weaknesses in cash receipting procedures may allow the possibility for errors and irregularities to occur and not be detected in a timely manner.

It is our understanding that the above audit finding consists of a list of minor weaknesses which primarily relate to ASB activities. Furthermore, the auditors have exercised their judgment that these minor weaknesses when grouped together represent a material weakness worthy of reporting. The district administration regards ASB activities seriously and continually endeavors to effectively implement policies and procedures as outlined by the ASB manual. The schools are aware of the minor weaknesses and have implemented or are in the process of implementing your recommendations. In addition, we plan to implement internal audit procedures to enhance the timely monitoring of our ASB activities.

It is significant to note that ASB activities only contribute less than 2% to the entire district's 1995-1996 expenditures, and that these minor weaknesses in the cash receipting and disbursing procedures are unlikely to result in errors or irregularities in amounts that would be material in relation to the financial statements being audited.

Auditor's Concluding Remarks

As stated in our audit report on internal control structure, we consider these weaknesses to be reportable conditions. As further stated, we believe none of these reportable conditions, individually or in the aggregate, is a material weakness. The district's responsibility to safeguard (and our responsibility to audit) public funds, goes far beyond amounts that would be material in relation to the financial statements.

Based upon the response, the issues delineated in our report appear to have been addressed. We will review these areas again in our subsequent audit.

We would like to express our appreciation to staff for their assistance and cooperation throughout the audit process.

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Financial Statements

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the accompanying general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Way School District No. 210, at August 31, 1996, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 1997, on our consideration of the district's internal control structure and a report dated March 28, 1997, on its compliance with laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Federal Way School District No. 210 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to carryover of funds, parent involvement, program effectiveness, private school participation, schoolwide projects, and timely obligation of funds for Educationally Deprived Children/Local Educational Agencies (Chapter 1 of ESEA) (CFDA 84.010) and parent notification, rights and hearing process, individualized education progress, and timely obligation of funds for Special Education--State Grants (Part B, Education of the Handicapped Act) (CFDA 84.027) as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Federal Way School District No. 210 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997

FEDERAL WAY SCHOOL DISTRICT NO. 210
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Federal Way School District No. 210
Federal Way, Washington

We have audited the general-purpose financial statements of Federal Way School District No. 210, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated March 28, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated March 28, 1997.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Receipts
 - Disbursements
 - Purchasing
 - Payroll
 - Property, plant, and equipment
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the fiscal year ended August 31, 1996, the district expended 80 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 28, 1997